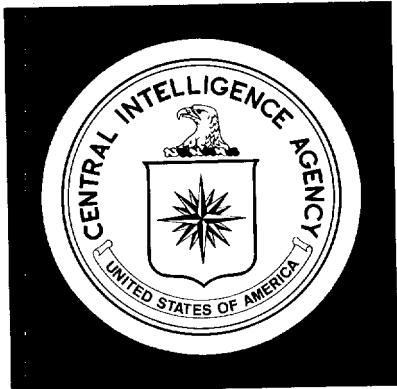


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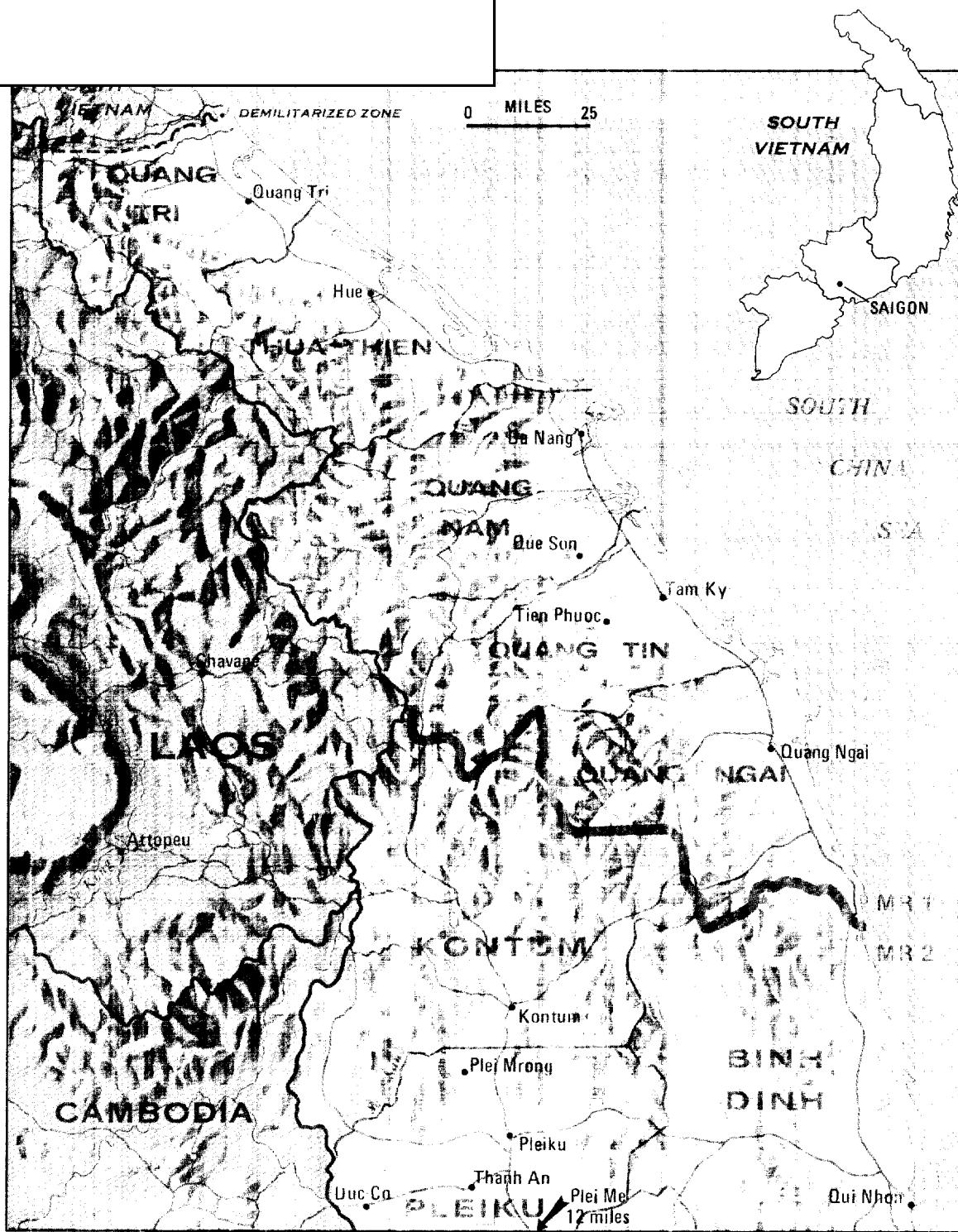
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**VIETNAM:** South Vietnamese forces have been driven from a position in Quang Tin Province, but they repulsed new enemy attacks in the western highlands.

Two companies of the South Vietnamese 2nd Division supporting territorials defending Hill 211 north of the district town of Tien Phuoc in Quang Tin Province broke and ran early yesterday, allowing the Communists to seize the position. The Communists apparently are continuing to move toward the town, which was the target of an enemy rocket and mortar attack early yesterday.

Friendly forces repelled a battalion-sized attack near the Ngo Trang resettlement camp seven miles north of Kontum City. The assault, which was preceded by a 250-round shelling, was probably carried out by the B-3 Front's 28th Regiment. Early yesterday, an element of the North Vietnamese 320th Division shelled and assaulted a South Vietnamese field position six miles northeast of the Thanh An district town and briefly penetrated the defensive perimeter before being forced to pull back. Elsewhere in Pleiku Province, the enemy shelled the Plei Me, Duc Co, and Plei Mrong ranger camps and several artillery bases.

There were no significant developments on the Quang Tri battlefield or in the Que Son Valley.

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FINLAND - EAST GERMANY: Finland has become the first country in Western Europe to initial a treaty for full diplomatic relations with East Germany.

The agreement is expected to be signed in Helsinki early next month and will come into force 30 days later. The treaty has three major provisions: full diplomatic relations at the ambassadorial level, recognition of Finnish neutrality, including acceptance of a non-use-of-force principle, and an agreement to open bilateral negotiations on "juridical and economic questions dating from World War II"--presumably including the touchy subject of reparations for German war damage in Finland.

Despite Foreign Minister Karjalainen's assurances that Finland will continue to pursue its policy of parallelism with the two Germanies, Helsinki's decision to push ahead with Pankow reflects a significant change in policy. Moscow may have prompted Finland's decision by indicating approval of the Finns' desire to complete their draft free trade agreement with the EC.

West Germany has tried unsuccessfully to dissuade the Finns, arguing that efforts by third countries to establish relations with East Germany should await the conclusion of current negotiations between the two German states aimed at clarifying their own bilateral relations. Bonn is displeased with Helsinki's decision, but will probably limit its reaction to reiterating the policy of not beginning formal negotiations with Finland until an inter-German treaty is concluded.

The Finnish move is not expected to initiate a flurry of recognition of Pankow by other Western European countries, but other Scandinavian governments are interested and the Social Democratic government in Sweden has hinted that it may announce an intention to recognize East Germany at the party congress in October.

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USSR: Soviet workers, possibly reacting to rumors of food shortages and to the slow improvement in the supply of consumer goods, may be engaging in work slowdowns.

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The US Embassy in Moscow reports that a slowdown strike has occurred in one Moscow factory and [redacted] there has passed an unconfirmed report that this activity is "rotating" from one factory to another on a daily basis. The reports probably reflect scattered slowdowns rather than an organized effort. Although slowdowns and work stoppages occurred in 1962 when meat prices were increased and again after the disastrous 1963 harvest, Soviet workers probably are not organized sufficiently to stage a rotating work stoppage. The appearance of even scattered strikes, however, could be evidence of the workers' deep concern over the adequacy of food supplies this fall and winter, despite the government's recent assurances, underscored by large grain purchases from the West. Moscow's decision to restrict hard currency outlays for consumer goods in order to pay for their grain purchases may add to workers' discontent in the coming months. [redacted]

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CHILE: The Allende government is setting the stage for a crackdown on some of its right-wing opponents, and a transport strike today could set off more trouble.

In a major speech on 5 September, Allende said that "a sinister foreign contribution" marks rightist activities, and his government later reiterated its intention to expel foreign residents it suspects of helping to disturb public order. At a gigantic rally celebrating the second anniversary of his election on 4 September, Allende claimed that a "September Plan" to overthrow his administration is afoot, and supporters have elaborated this charge. Socialists and Communists are making a noticeable effort to submerge their deep differences and coordinate street resistance to increasing opposition activity.

Although both Allende and the president of the Senate, a Christian Democrat, have expressed the need for a joint effort to reduce tensions, most of their backers who favored this approach in the past are now silent. [redacted]

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Some business groups that have been trying to force the ouster of Allende are backing a nationwide transport strike planned for today to protest rate controls, lack of spare parts, and other economic problems. If the thousands of truck drivers and owners of most private taxis and buses join in, as has been predicted, severe dislocation and further disturbances are likely. [redacted]

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JAPAN-CHINA-TAIWAN: Prime Minister Tanaka has been given a free hand by ruling party leaders in the coming negotiations with Peking.

Top party leaders agreed unanimously on 5 September to a compromise policy draft, overcoming strong objections by pro-Taipei elements. The draft, which omits any reference to Taiwan, is very vague and avoids all practical issues. It endorses normalization of relations, non-interference in each other's affairs, and promotion of economic and cultural exchanges.

The draft is in effect a compromise with the conservative pro-Taipei wing of the party, allowing these conservatives to save some face and still acquiesce in plans to establish ties with Peking at the cost of relations with Taiwan. Tanaka's negotiating position on the Taiwan issue has been strengthened by the wide publicity given to this demonstration of concern in Japan over continuing ties with Taipei. An earlier policy draft had to be withdrawn because of stiff resistance from the conservative elements in the party.

Tokyo is planning to send Etsusaburo Shiina, vice president of the ruling party, to Taipei shortly to explain Tokyo's policy and discuss the format for future relations following the formal break in diplomatic ties. There is no assurance, however, that Taipei will agree to the visit.

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CUBA-PANAMA: Havana has agreed to release to Panama two ships of Panamanian registry and one of the prisoners it captured last December and accused of involvement in anti-government operations.

According to a Havana news release, the agreement was reached by Cuban authorities and Panamanian University rector Romulo Escobar Betancourt, who recently led a 63-member student delegation on an extensive visit to Cuba. A Panamanian spokesman indicated that the transfer will take place in mid-October.

Cuba currently holds three crewmen from the ships. The one to be released is the naturalized Cuban boatswain of the Johnny Express. Jose Villa, the US citizen who was captain of one of the ships, remains in Cuba. It is not known when he will be freed.

The agreement comes at a time when the Castro government is working to improve its image in the hemisphere and to increase its official ties with Latin American governments. Unofficial ties between Cuba and Panama have become increasingly warm in recent months even though formal recognition has not appeared imminent. Castro, moreover, is delighted to see US and OAS policies thwarted either directly or indirectly, and he probably views his latest move as an effective means to win further support and sympathy for Cuban "reasonableness" in its international dealings.

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CENTRAL AMERICA: The Common Market has suffered another setback with the decision of El Salvador, Nicaragua, and Guatemala to close their borders to Costa Rican exports.

This step was taken in retaliation for Costa Rica's decision to in effect eliminate the preferences given its Common Market trading partners by instituting an exchange rate system that raises by about 30 percent the cost of all "non-essential" goods entering from the other Market countries.

Normal trade patterns within the Common Market were greatly affected by the war between El Salvador and Honduras in mid-1969 and the Honduran decision in December 1970 to withdraw from the free trade area by imposing duties on imports from the other Market countries. For more than a year the Costa Rican economy has been upset by the heavy influx of Guatemalan and Salvadoran goods that previously went to Honduras. Faced with a serious balance-of-payments problem--much the same as the position of Honduras at the end of 1970--Costa Rica followed in Honduras' footsteps and adopted a protectionist policy.

In the short run, efforts will be directed toward persuading Costa Rica to rescind its new import policy and adopt other means to cope with economic problems. The difficulties besetting the Market are so complex, however, that such interim steps may not be enough to counter the growing trend toward regional disintegration. Sentiment may develop, therefore, for a five-nation conference to discuss a fundamental restructuring of the Market to reduce regional trade imbalances and equalize and benefits from industrialization.

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